



Corporate Governance



Overview

This Corporate Governance presentation has three segments:

- Roles and Responsibilities;
- Supervision of Bank Operations; and
- Keeping Informed.



Roles and Responsibilities

Directors and officers have a duty to exercise loyalty and care when fulfilling their responsibilities.

- **Duty of Loyalty**

Administer the affairs of the bank with candor, honesty, and integrity.

- **Duty of Care**

Act as prudent and diligent business persons in conducting the affairs of the bank.



Roles and Responsibilities

The board of directors should:

- select and retain competent management;
- establish, with management, the bank's long- and short-term business objectives;
- adopt operating policies to achieve objectives in accordance with the Interagency Guidelines Establishing Standards for Safety and Soundness set forth in Part 364¹, Appendix A, of the FDIC Rules and Regulations;

¹The FDIC Rules and Regulations can be found on the FDIC's website at www.fdic.gov.



Roles and Responsibilities

The board of directors should (cont.):

- monitor management's adherence to established policies and applicable regulations;
- oversee the bank's business performance;
- verify compliance with risk limits; and
- ensure that the bank helps meet its community's credit needs.



Roles and Responsibilities

It is important for directors to independently make decisions. Characteristics of independent decision making are:

- regular meeting attendance;
- cooperation and trust with management; and
- credible discussions of management presentations and proposals that are well-documented in board and committee minutes.



Roles and Responsibilities

A "One-Person Bank" occurs when a principal officer or stockholder dominates virtually all phases of the bank's policies and operations.



Roles and Responsibilities

Two potential dangers are inherent in a "One-Person Bank."

1. Incapacitation of the dominant officer may result in a management void.
2. Problem situations resulting from mismanagement may be more difficult to solve through normal supervisory efforts because problems are often attributed to the one individual that dominates the bank.



Roles and Responsibilities

Examples of mitigating controls for “One-Person Banks” are:

- segregation of duties and responsibilities;
- a sufficient number of outside, independent, and engaged directors; and
- independent board committees overseeing major risk areas.

For a comprehensive listing of mitigating controls for “One-Person Banks,” please refer to the Management Section of the FDIC Risk Management Manual of Examination Policies at www.fdic.gov.



Supervision of Bank Operations

The board should develop a well-constructed strategic plan that:

- is based on realistic assumptions;
- includes clear objectives, measurable goals, and well-defined risk limits;
- is actively monitored by the board; and
- is updated to address changing circumstances or new strategies.



Supervision of Bank Operations

A framework of written policies and operating procedures should:

- define the desired risk profile;
- adhere to the standards for safety and soundness set forth in Part 364 of the FDIC Rules and Regulations and the Risk Management Manual of Examination Policies²; and
- be supported by management practices and corporate culture.

²The FDIC Rules and Regulations and FDIC Risk Management Manual of Examination Policies can be found on the FDIC's website at www.fdic.gov.



Supervision of Bank Operations

Closely monitor adherence to the board's strategic plan and risk appetite through:

- regular and ad hoc management reporting and
- meaningful discussions with management.



Supervision of Bank Operations

Avoid preferential transactions by:

- establishing and enforcing codes of conduct;
- complying with laws and regulations on insider transactions; and
- reviewing insider dealings rigorously and independently.



Supervision of Bank Operations

Loans to executive officers, directors, and principal shareholders of member banks are governed by Part 215 of the Federal Reserve Board's Regulation O.

Regulation O:

- requires extensions of credit to be made on substantially the same terms and follow the same credit underwriting procedures as those prevailing at the time for persons not covered by the regulation;
- establishes aggregate lending limits and prior approval requirements; and
- prohibits overdrafts of directors or executive officers unless part of a written, preauthorized interest-bearing credit plan or by transfer of funds from another account at the bank.



Supervision of Bank Operations

Section 337.3 of the FDIC Rules and Regulations³ makes Regulation O applicable to state nonmember banks and sets forth requirements for approval of extensions of credit to insiders. These extensions of credit should:

- be approved in advance by a board majority with interested parties abstaining, if it exceeds the amount specified in the regulation;
- have a basis that is fully documented in board minutes; and
- be reviewed by internal audit.

³The FDIC Rules and Regulations can be found at www.fdic.gov.



Keeping Informed

Directors can keep informed by:

- regularly attending and being prepared to actively participate in all meetings;



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- establishing good communication with regulators.



Keeping Informed

The FDIC's webpage is a source of information. Please visit www.fdic.gov and then click through the following to access the Directors' Resource Center:

- Regulations and Examinations;
- Resources for Bank Officers and Directors; and
- Directors' Resource Center.



Resources

Virtual Directors' College Program

Directors' Resource Center:

- New Director Education Series;
- Statement Concerning the Responsibilities of Bank Directors and Officers; and
- Pocket Guide for Directors.

Comments and Questions Mailbox: supervision@fdic.gov